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UNDERSTANDING UNILATERAL MISTAKE AND ITS IMPACT

Introduction-

According to section 14¹, mistake is one of the factors that can make a contract void or voidable and even though it is not defined in the Indian Contract act, it can be defined as a wrong belief of a party or both the parties with respect to the subject matter of the contract. sections 20, 21 and 22 deal with the mistake and its effect on the validity of the contract.

This blog seeks to understand what is unilateral mistake and what are reasons for making a contract voidable in case of unilateral mistake and what are the repercussions faced by the party under mistake.

Understanding the concept of mistake and its types-

Under the influence of Roman law and contemporary civil law, a doctrine of mistake was first acknowledged in the English law of contracts in the nineteenth century (and in particular French law). There was a period when the courts were more inclined to rule that a contract was invalid if there wasn't "genuine, full, and free" agreement, basing their decisions on the consensus theory of contract and the work of French jurist Pothier in the seventeenth century. Nowadays the scope of doctrine of mistake is rather narrow and uncertain because of the fact that over the course of time there have been no set principles to decide the cases and they were open to many interpretations based upon the attitude of the judges towards the question of mistake. Nevertheless it can be stated that the position of the courts also depended upon the types of mistake in relation to the contracts. Broadly speaking mistake can be classified into 2-

¹ The Indian Contract Act, 1872, § 14, No.9, Acts of Parliament, 1872 (India)

- 1.) Mistake of Law -It works on the maxim of “Ignorantia Juris non excusat” which is a Latin maxim which means “Ignorance of the law is not excused”. Section 21 of The Indian Contract Act deals with Mistake of Law.
- 2.) Mistake of Fact - It occurs when one or both parties involved in a contract have mistaken a term that is essential to the meaning of the contract. It is dealt in sec 20 and sec 22 of Indian Contract Act.

It can further be classified into -

- Bilateral Mistake -It is regarded as a bilateral mistake when both parties engage into an agreement but are equally incorrect regarding the same contract conditions.
- Unilateral Mistake - When only one of the parties to the contract is under mistake it can be defined as unilateral mistake. Section 22 deals with the effect on validity of contract in case of unilateral mistake as to the matter of fact.

Unilateral Mistake

As per Sec 22 of ICA the contract does not become voidable. It states that “A contract is not voidable merely because it was caused by one of the parties to it being under a mistake as to a matter of fact.”² Generally the cases in unilateral mistake show two distinct lines :

- The mistake related to the terms of the contract - In the case of *Ayekam Angahal Singh v. Union of India*³ where there was an action for sale of fishery rights where the plaintiff made the highest bid of forty thousand rupees. This amount was to be paid annually however the plaintiff thought that the sum was for the period of 3 years. Here the plaintiff was held to be bound by the terms of contract as it was a unilateral mistake.
- The mistake concerns the identity of the other party to the contract- If there is a Party A who sells some commodities to Party B, however Party B is actually a scam, and Party A is unaware of this when it comes to who Party B is. Prior to obtaining anything in return, Party A transfers ownership of the commodities to Party B. Party B then transfers the products to Party C and vanishes. In this case, a claim for unilateral mistake of identity offers relief. Since Party B would never hold title to the goods and could never transfer

² The Indian Contract Act, 1872, § 22, No.9, Acts of Parliament, 1872 (India)

³ *Ayekpam Angahal Singh v. Union of India* AIR 1970 Manipur 16

title to Party C as a result of the mistake, the contract is void at the moment of creation, giving Party A the option of either recovering the items from Party C or suing Party C for conversion as a result.

Over the years in different cases relating to unilateral mistake depending on circumstances of the case the courts have held contracts to be void, voidable or valid.

*Chwee Kin Keong v. Digilandmall.com Pte Ltd*⁴ - Here, because of an employee's mistake, the price of HP printers in an advertisement was grossly underpriced and a lot of people bought in bulk. It was held that the contract between the parties was void. The complainants must have recognised that the defendants' "absurdly low" pricing was a mistake because it was crucial to the terms of the contract.

In another case, *Phillips v Brooks Ltd*⁵, a fraudster posed as Sir George Bullough and purchased a ring and pearls from the plaintiff's jewelry shop which he then sold to a third party named. Despite a dishonored cheque, the court ruled that the contract was not void due to a mistake of identity since it was signed in person. The identity of the fraudster could not be deemed to have been "mistaken." Thus the ring belonged to that third party.

Conclusion

As we have seen so far in case of unilateral mistake the contract is not voidable however there have been cases where going with the principal of equity courts have decided in favour of the mistaken party. So it can be said that even though the onus should be on the parties to contract to decide upon the terms with caution but if they have taken necessary precautions before entering into contract then the contract should be held as void. There are 2 remedies in case of unilateral mistake which are contract reformation and contract Rescission but they are not always given so the parties must always be careful while entering into contract.

⁴ *Chwee Kin Keong v. Digilandmall.com Pte Ltd* [2005] 1 SLR 502; [2005] SGCA 2

⁵ *Phillips v Brooks Ltd* [1919] 2 KB 243

